HOUSE BILL No. 1755

DIGEST OF INTRODUCED BILL

Citations Affected: IC 6-3-1; IC 6-3-2-4.

Synopsis: Adjusted gross income tax. Exempts active duty military pay earned by members of the National Guard and Reserves from the individual income tax. Provides that a taxpayer may not claim both the new exemption and the existing deduction for military income. Increases the amount of the existing deduction from \$2,000 to \$5,000 for service in an active component of the armed forces of the United States.

Effective: January 1, 2008.

Davis

January 26, 2007, read first time and referred to Committee on Ways and Means.





First Regular Session 115th General Assembly (2007)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in this style type, and deletions will appear in this style type.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in this style type. Also, the word NEW will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in this style type or this style type reconciles conflicts between statutes enacted by the 2006 Regular Session of the General Assembly.

HOUSE BILL No. 1755

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

Be it enacted by the General Assembly of the State of Indiana:

1	SECTION 1. IC 6-3-1-2.5 IS ADDED TO THE INDIANA CODE
2	AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE
3	JANUARY 1, 2008]: Sec. 2.5. "Armed forces of the United States"
4	refers to the following:

- (1) The army.
- (2) The navy.
- (3) The air force.
- (4) The coast guard.
 - (5) The marine corps.
- 10 (6) The merchant marine.
 - SECTION 2. IC 6-3-1-2.7 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JANUARY 1, 2008]: Sec. 2.7. "National Guard" has the meaning set forth in IC 5-9-4-4.
 - SECTION 3. IC 6-3-1-3.5, AS AMENDED BY P.L.184-2006, SECTION 3, AND AS AMENDED BY P.L.162-2006, SECTION 24, IS CORRECTED AND AMENDED TO READ AS FOLLOWS

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IN 1755—LS 6905/DI 92+

1	[EFFECTIVE JANUARY 1, 2008]: Sec. 3.5. When used in this article,
2	the term "adjusted gross income" shall mean the following:
3	(a) In the case of all individuals, "adjusted gross income" (as
4	defined in Section 62 of the Internal Revenue Code), modified as
5	follows:
6	(1) Subtract income that is exempt from taxation under this article
7	by the Constitution and statutes of the United States.
8	(2) Add an amount equal to any deduction or deductions allowed
9	or allowable pursuant to Section 62 of the Internal Revenue Code
.0	for taxes based on or measured by income and levied at the state
1	level by any state of the United States.
2	(3) Subtract one thousand dollars (\$1,000), or in the case of a
.3	joint return filed by a husband and wife, subtract for each spouse
4	one thousand dollars (\$1,000).
5	(4) Subtract one thousand dollars (\$1,000) for:
6	(A) each of the exemptions provided by Section 151(c) of the
7	Internal Revenue Code;
. 8	(B) each additional amount allowable under Section 63(f) of
9	the Internal Revenue Code; and
20	(C) the spouse of the taxpayer if a separate return is made by
21	the taxpayer and if the spouse, for the calendar year in which
22	the taxable year of the taxpayer begins, has no gross income
23	and is not the dependent of another taxpayer.
24	(5) Subtract:
2.5	(A) for taxable years beginning after December 31, 2004, one
26	thousand five hundred dollars (\$1,500) for each of the
27	exemptions allowed under Section 151(c)(1)(B) of the Internal
28	Revenue Code for taxable years beginning after December 31,
29	1996 (as effective January 1, 2004); and
0	(B) five hundred dollars (\$500) for each additional amount
51	allowable under Section 63(f)(1) of the Internal Revenue Code
32	if the adjusted gross income of the taxpayer, or the taxpayer
33	and the taxpayer's spouse in the case of a joint return, is less
34	than forty thousand dollars (\$40,000).
55	This amount is in addition to the amount subtracted under
66	subdivision (4).
37	(6) Subtract an amount equal to the lesser of:
8	(A) that part of the individual's adjusted gross income (as
9	defined in Section 62 of the Internal Revenue Code) for that
10	taxable year that is subject to a tax that is imposed by a
1	political subdivision of another state and that is imposed on or
12	measured by income; or



1	(B) two thousand dollars (\$2,000).
2	(7) Add an amount equal to the total capital gain portion of a
3	lump sum distribution (as defined in Section 402(e)(4)(D) of the
4	Internal Revenue Code) if the lump sum distribution is received
5	by the individual during the taxable year and if the capital gain
6	portion of the distribution is taxed in the manner provided in
7	Section 402 of the Internal Revenue Code.
8	(8) Subtract any amounts included in federal adjusted gross
9	income under Section 111 of the Internal Revenue Code as a
.0	recovery of items previously deducted as an itemized deduction
.1	from adjusted gross income.
2	(9) Subtract any amounts included in federal adjusted gross
.3	income under the Internal Revenue Code which amounts were
.4	received by the individual as supplemental railroad retirement
.5	annuities under 45 U.S.C. 231 and which are not deductible under
. 6	subdivision (1).
7	(10) Add an amount equal to the deduction allowed under Section
. 8	221 of the Internal Revenue Code for married couples filing joint
.9	returns if the taxable year began before January 1, 1987.
20	(11) Add an amount equal to the interest excluded from federal
21	gross income by the individual for the taxable year under Section
22	128 of the Internal Revenue Code if the taxable year began before
23	January 1, 1985.
24	(12) Subtract an amount equal to the amount of federal Social
2.5	Security and Railroad Retirement benefits included in a taxpayer's
26	federal gross income by Section 86 of the Internal Revenue Code.
27	(13) In the case of a nonresident taxpayer or a resident taxpayer
28	residing in Indiana for a period of less than the taxpayer's entire
29	taxable year, the total amount of the deductions allowed pursuant
30	to subdivisions (3) , (4) , (5) , and (6) shall be reduced to an amount
31	which bears the same ratio to the total as the taxpayer's income
32	taxable in Indiana bears to the taxpayer's total income.
33	(14) In the case of an individual who is a recipient of assistance
34	under IC 12-10-6-1, IC 12-10-6-2.1, IC 12-15-2-2, or IC 12-15-7,
35	subtract an amount equal to that portion of the individual's
66	adjusted gross income with respect to which the individual is not
37	allowed under federal law to retain an amount to pay state and
8	local income taxes.
19	(15) In the case of an eligible individual, subtract the amount of
10	a Holocaust victim's settlement payment included in the
1	individual's federal adjusted gross income.
12	(16) For taxable years beginning after December 31, 1999.



1	subtract an amount equal to the portion of any premiums paid	
2	during the taxable year by the taxpayer for a qualified long term	
3	care policy (as defined in IC 12-15-39.6-5) for the taxpayer or the	
4	taxpayer's spouse, or both.	
5	(17) Subtract an amount equal to the lesser of:	
6	(A) for a taxable year:	
7	(i) including any part of 2004, the amount determined under	
8	subsection (f); and	
9	(ii) beginning after December 31, 2004, two thousand five	
10	hundred dollars (\$2,500); or	
11	(B) the amount of property taxes that are paid during the	
12	taxable year in Indiana by the individual on the individual's	
13	principal place of residence.	
14	(18) Subtract an amount equal to the amount of a September 11	
15	terrorist attack settlement payment included in the individual's	
16	federal adjusted gross income.	
17	(19) Add or subtract the amount necessary to make the adjusted	
18	gross income of any taxpayer that owns property for which bonus	
19	depreciation was allowed in the current taxable year or in an	
20	earlier taxable year equal to the amount of adjusted gross income	
21	that would have been computed had an election not been made	
22	under Section 168(k) of the Internal Revenue Code to apply bonus	
23	depreciation to the property in the year that it was placed in	
24	service.	
25	(20) Add an amount equal to any deduction allowed under	
26	Section 172 of the Internal Revenue Code.	
27	(21) Add or subtract the amount necessary to make the adjusted	
28	gross income of any taxpayer that placed Section 179 property (as	
29	defined in Section 179 of the Internal Revenue Code) in service	
30	in the current taxable year or in an earlier taxable year equal to	
31	the amount of adjusted gross income that would have been	
32	computed had an election for federal income tax purposes not	
33	been made for the year in which the property was placed in	
34	service to take deductions under Section 179 of the Internal	
35	Revenue Code in a total amount exceeding twenty-five thousand	
36	dollars (\$25,000).	
37	(22) Add an amount equal to the amount that a taxpayer claimed	
38	as a deduction for domestic production activities for the taxable	
39	year under Section 199 of the Internal Revenue Code for federal	
40	income tax purposes.	
41	(23) Subtract an amount equal to the amount of the taxpayer's	
42	qualified military income that was not excluded from the	



1	taxpayer's gross income for federal income tax purposes	
2	under Section 112 of the Internal Revenue Code.	
3	(b) In the case of corporations, the same as "taxable income" (as	
4	defined in Section 63 of the Internal Revenue Code) adjusted as	
5	follows:	
6	(1) Subtract income that is exempt from taxation under this article	
7	by the Constitution and statutes of the United States.	
8	(2) Add an amount equal to any deduction or deductions allowed	
9	or allowable pursuant to Section 170 of the Internal Revenue	
.0	Code.	
1	(3) Add an amount equal to any deduction or deductions allowed	'
2	or allowable pursuant to Section 63 of the Internal Revenue Code	
.3	for taxes based on or measured by income and levied at the state	
4	level by any state of the United States.	
.5	(4) Subtract an amount equal to the amount included in the	
. 6 . 7	corporation's taxable income under Section 78 of the Internal Revenue Code.	
. 8	(5) Add or subtract the amount necessary to make the adjusted	·
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.9 20	gross income of any taxpayer that owns property for which bonus depreciation was allowed in the current taxable year or in an	
.0 21	earlier taxable year equal to the amount of adjusted gross income	
22	that would have been computed had an election not been made	
23	under Section 168(k) of the Internal Revenue Code to apply bonus	
.5	depreciation to the property in the year that it was placed in	
25	service.	
26	(6) Add an amount equal to any deduction allowed under Section	
27	172 of the Internal Revenue Code.	•
28	(7) Add or subtract the amount necessary to make the adjusted	
29	gross income of any taxpayer that placed Section 179 property (as	1
0	defined in Section 179 of the Internal Revenue Code) in service	-
31	in the current taxable year or in an earlier taxable year equal to	
32	the amount of adjusted gross income that would have been	
33	computed had an election for federal income tax purposes not	
34	been made for the year in which the property was placed in	
35	service to take deductions under Section 179 of the Internal	
66	Revenue Code in a total amount exceeding twenty-five thousand	
37	dollars (\$25,000).	
8	(8) Add an amount equal to the amount that a taxpayer claimed as	
9	a deduction for domestic production activities for the taxable year	
10	under Section 199 of the Internal Revenue Code for federal	
1	income tax purposes.	
12	(9) Add to the extent required by IC 6-3-2-20 the amount of	



1	intangible expenses (as defined in IC 6-3-2-20) and any directly
2	related intangible interest expenses (as defined in IC 6-3-2-20)
3	for the taxable year that reduced the corporation's taxable
4	income (as defined in Section 63 of the Internal Revenue Code)
5	for federal income tax purposes.
6	(c) In the case of life insurance companies (as defined in Section
7	816(a) of the Internal Revenue Code) that are organized under Indiana
8	law, the same as "life insurance company taxable income" (as defined
9	in Section 801 of the Internal Revenue Code), adjusted as follows:
10	(1) Subtract income that is exempt from taxation under this article
11	by the Constitution and statutes of the United States.
12	(2) Add an amount equal to any deduction allowed or allowable
13	under Section 170 of the Internal Revenue Code.
14	(3) Add an amount equal to a deduction allowed or allowable
15	under Section 805 or Section 831(c) of the Internal Revenue Code
16	for taxes based on or measured by income and levied at the state
17	level by any state.
18	(4) Subtract an amount equal to the amount included in the
19	company's taxable income under Section 78 of the Internal
20	Revenue Code.
21	(5) Add or subtract the amount necessary to make the adjusted
22	gross income of any taxpayer that owns property for which bonus
23	depreciation was allowed in the current taxable year or in an
24	earlier taxable year equal to the amount of adjusted gross income
25	that would have been computed had an election not been made
26	under Section 168(k) of the Internal Revenue Code to apply bonus
27	depreciation to the property in the year that it was placed in
28	service.
29	(6) Add an amount equal to any deduction allowed under Section
30	172 or Section 810 of the Internal Revenue Code.
31	(7) Add or subtract the amount necessary to make the adjusted
32	gross income of any taxpayer that placed Section 179 property (as
33	defined in Section 179 of the Internal Revenue Code) in service
34	in the current taxable year or in an earlier taxable year equal to
35	the amount of adjusted gross income that would have been
36	computed had an election for federal income tax purposes not
37	been made for the year in which the property was placed in
38	service to take deductions under Section 179 of the Internal
39	Revenue Code in a total amount exceeding twenty-five thousand
40	dollars (\$25,000).
41	(8) Add an amount equal to the amount that a taxpayer claimed as
42	a deduction for domestic production activities for the taxable year



1	under Section 199 of the Internal Revenue Code for federal	
2	income tax purposes.	
3	(d) In the case of insurance companies subject to tax under Section	
4	831 of the Internal Revenue Code and organized under Indiana law, the	
5	same as "taxable income" (as defined in Section 832 of the Internal	
6	Revenue Code), adjusted as follows:	
7	(1) Subtract income that is exempt from taxation under this article	
8	by the Constitution and statutes of the United States.	
9	(2) Add an amount equal to any deduction allowed or allowable	
10	under Section 170 of the Internal Revenue Code.	4
11	(3) Add an amount equal to a deduction allowed or allowable	
12	under Section 805 or Section 831(c) of the Internal Revenue Code	`
13	for taxes based on or measured by income and levied at the state	
14	level by any state.	
15	(4) Subtract an amount equal to the amount included in the	
16	company's taxable income under Section 78 of the Internal	4
17	Revenue Code.	
18	(5) Add or subtract the amount necessary to make the adjusted	
19	gross income of any taxpayer that owns property for which bonus	
20	depreciation was allowed in the current taxable year or in an	
21	earlier taxable year equal to the amount of adjusted gross income	
22	that would have been computed had an election not been made	
23	under Section 168(k) of the Internal Revenue Code to apply bonus	
24	depreciation to the property in the year that it was placed in	•
25	service.	
26	(6) Add an amount equal to any deduction allowed under Section	
27	172 of the Internal Revenue Code.	
28	(7) Add or subtract the amount necessary to make the adjusted	`
29	gross income of any taxpayer that placed Section 179 property (as	
30	defined in Section 179 of the Internal Revenue Code) in service	
31	in the current taxable year or in an earlier taxable year equal to	
32	the amount of adjusted gross income that would have been	
33	computed had an election for federal income tax purposes not	
34	been made for the year in which the property was placed in	
35	service to take deductions under Section 179 of the Internal	
36	Revenue Code in a total amount exceeding twenty-five thousand	
37	dollars (\$25,000).	
38	(8) Add an amount equal to the amount that a taxpayer claimed as	
39	a deduction for domestic production activities for the taxable year	
40	under Section 199 of the Internal Revenue Code for federal	
41	income tax purposes.	
42	(e) In the case of trusts and estates, "taxable income" (as defined for	



1 2	trusts and estates in Section 641(b) of the Internal Revenue Code) adjusted as follows:
3	•
4	(1) Subtract income that is exempt from taxation under this article by the Constitution and statutes of the United States.
5	(2) Subtract an amount equal to the amount of a September 11
6	terrorist attack settlement payment included in the federal
7	adjusted gross income of the estate of a victim of the September
8	11 terrorist attack or a trust to the extent the trust benefits a victim
9	of the September 11 terrorist attack.
.0	(3) Add or subtract the amount necessary to make the adjusted
1	gross income of any taxpayer that owns property for which bonus
2	depreciation was allowed in the current taxable year or in an
.3	earlier taxable year equal to the amount of adjusted gross income
4	that would have been computed had an election not been made
5	under Section 168(k) of the Internal Revenue Code to apply bonus
.6	depreciation to the property in the year that it was placed in
7	service.
. 8	(4) Add an amount equal to any deduction allowed under Section
9	172 of the Internal Revenue Code.
20	(5) Add or subtract the amount necessary to make the adjusted
21	gross income of any taxpayer that placed Section 179 property (as
22	defined in Section 179 of the Internal Revenue Code) in service
23	in the current taxable year or in an earlier taxable year equal to
24	the amount of adjusted gross income that would have been
2.5	computed had an election for federal income tax purposes not
26	been made for the year in which the property was placed in
27	service to take deductions under Section 179 of the Internal
28	Revenue Code in a total amount exceeding twenty-five thousand
29	dollars (\$25,000).
30	(6) Add an amount equal to the amount that a taxpayer claimed as
31	a deduction for domestic production activities for the taxable year
32	under Section 199 of the Internal Revenue Code for federal
33	income tax purposes.
34	(f) This subsection applies only to the extent that an individual paid
35	property taxes in 2004 that were imposed for the March 1, 2002,
56	assessment date or the January 15, 2003, assessment date. The
57	maximum amount of the deduction under subsection (a)(17) is equal
8	to the amount determined under STEP FIVE of the following formula:
19	STEP ONE: Determine the amount of property taxes that the
10	taxpayer paid after December 31, 2003, in the taxable year for
1	property taxes imposed for the March 1, 2002, assessment date
12	and the January 15, 2003, assessment date.



1	STEP TWO: Determine the amount of property taxes that the	
2	taxpayer paid in the taxable year for the March 1, 2003,	
3	assessment date and the January 15, 2004, assessment date.	
4	STEP THREE: Determine the result of the STEP ONE amount	
5	divided by the STEP TWO amount.	
6	STEP FOUR: Multiply the STEP THREE amount by two	
7	thousand five hundred dollars (\$2,500).	
8	STEP FIVE: Determine the sum of the STEP FOUR amount and	
9	two thousand five hundred dollars (\$2,500).	
10	SECTION 4. IC 6-3-1-34 IS ADDED TO THE INDIANA CODE	
11	AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE	
12	JANUARY 1, 2008]: Sec. 34. "Qualified military income" means	
13	wages paid to a member of:	
14	(1) a reserve component of the armed forces of the United	
15	States; or	
16	(2) the National Guard;	
17	for the member's full-time military service for a period that	
18	exceeds thirty (30) consecutive days in a calendar year.	
19	SECTION 5. IC 6-3-2-4 IS AMENDED TO READ AS FOLLOWS	
20	[EFFECTIVE JANUARY 1, 2008]: Sec. 4. Each taxable year, (a) An	
21	individual or the individual's surviving spouse is entitled to an adjusted	
22	gross income tax deduction for the first two thousand dollars (\$2,000)	
23	of income, including retirement or survivor's benefits received during	
24	the taxable year by the individual or the individual's surviving spouse	
25	for the individual's service in an active or reserve component of the	
26	armed forces of the United States including the army, navy, air force,	
27	coast guard, marine corps, merchant marine, Indiana army national	
28	guard, or Indiana air or the National Guard. However, a person an	
29	individual who is less than sixty (60) years of age on the last day of the	
30	person's individual's taxable year is not, for that taxable year, entitled	
31	to a deduction under this section subsection for retirement or survivor's	
32	benefits.	
33	(b) Subject to subsection (e), an individual or the individual's	
34 35	surviving spouse is entitled to an adjusted gross income tax	
	deduction for the first five thousand dollars (\$5,000) of income,	
36 37	including survivor's benefits, received during the taxable year by	
38	the individual, or the individual's surviving spouse, for the	
39	individual's service in an active component of the armed forces of the United States.	
) ブ	the United States.	

(c) Subject to subsection (e), an individual or the individual's

surviving spouse is entitled to an adjusted gross income tax

deduction for the first two thousand dollars (\$2,000) of income,



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including survivor's benefits, received during the taxable year by the individual, or the individual's surviving spouse, for the	
individual's service in a reserve component of the armed forces of the United States or the National Guard.	
(d) An individual is entitled to not more than one (1) deduction	
under this section. (e) An individual whose qualified military income is subtracted	
from the individual's federal adjusted gross income under	
IC 6-3-1-3.5(a)(23) for Indiana individual income tax purposes is	
not, for that taxable year, entitled to a deduction under this section	
for the individual's qualified military income. SECTION 6. [EFFECTIVE JANUARY 1, 2008] IC 6-3-1-3.5 and	
IC 6-3-2-4, both as amended by this act, apply to taxable years	
beginning after December 31, 2007.	
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